

Atmos fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Volume I of the application, page 3, paragraph 8, which indicates that Atmos is “experiencing a significant decline in residential customer volumes related to energy conservation.”

a. Provide the evidence relied upon by Atmos in making this statement and state whether Atmos believes the trend of declining usage may be reversed by gas commodity prices that currently are, and are expected to remain, lower than they have been for much of the past eight to nine years.

b. Explain whether Atmos is seeing any signs of increasing residential interest in or acquisition of gas-consuming appliances.

2. Refer to page 8 of the Direct Testimony of Gary L. Smith (“Smith Testimony”) which identifies April 1, 2010 to March 31, 2011 as Atmos’s proposed forecasted test period. Based on the December 1, 2009 proposed effective date in Atmos’s October 29, 2009 application, the 12 months immediately following a six-month suspension period from December 1, 2009 through May 31, 2010 would have been

June 1, 2010 to May 31, 2011. Explain why the proposed forecasted test period covers a period two months earlier than what the proposed effective date would have dictated.

3. Refer to page 12 of the Smith Testimony.

a. Starting at line 7, Mr. Smith refers to a trend line showing customer usage for the past nine years. Provide this trend line including the past ten calendar years. Include both the number of customers and volumes for each customer class.

b. Starting at line 21, Mr. Smith states that “[f]or the past few years, we estimate late payment fees at a ratio equal to 0.87% of the total projected residential, commercial and public authority class revenues.” State the years included in “the past few years” and provide the calculation for the .87 percent.

4. Refer to page 18 of the Smith Testimony. Starting at line 7, regarding the pipe replacement program (“PRP”) recovery rate adjustment, Mr. Smith states that “[f]or G-1 services, the adjustment would be reflected completely in the monthly customer charge. For G-2, T-3 and T-4 services, the adjustment would be reflected in both the monthly customer charge and the volumetric distribution charge.”

a. Explain in detail why Atmos is proposing to include the adjustment in its base rates (in the customer charge or the customer charge and the distribution charge) rather than as a separate rider on the customer’s bill.

b. State whether Atmos is aware that accelerated main replacement programs which this Commission has approved have required that the cost of the program be shown on customers’ bills as a separate rider.

c. Identify each jurisdiction in which Atmos operates where the utility regulatory agency has approved a main replacement program with cost recovery permitted through base rates rather than treated as a separate rider.

5. Refer to page 19 of the Smith Testimony. Mr. Smith states that “[w]ith the gas supply volatility experienced in the past decade, averaging or projecting the appropriate level of uncollectibles to be included in the Company’s base rates is certain to produce a result that is either too high or too low.” For each of the last five calendar years, provide the amount Atmos has over- or under-recovered due to uncollectible expense being included in its base rates. Include all supporting calculations.

6. Refer to pages 22 – 23 of the Smith Testimony. Mr. Smith states that Atmos is proposing to recover most of the requested increase in the customer charge but that this proposal does not lessen Atmos’s financial exposure to conservation and energy efficiency improvement. Explain why Atmos believes that its proposal does not lessen this type of financial exposure.

7. Refer to page 23 of the Smith Testimony. Provide the following information for the months covered by Atmos’s Weather Normalization Adjustment tariff (“WNA”) for the three most recent winter heating seasons:

a. On a monthly basis, for Rate G-1 Sales Service customers, the number of customers billed under the provisions of Atmos’s WNA.

b. Monthly Mcf sales, shown separately for residential and non-residential customers, and in total for both customer groups. In comparative form, show (1) actual metered sales volumes and (2) adjusted sales volumes as billed under the provisions of Atmos’s WNA.

c. On a monthly basis, for Rate G-1 residential and non-residential customers, average usage per customer based on (1) metered sales volumes and (2) adjusted sales volumes as billed under the provisions of Atmos's WNA. Provide this information for the period covered by the WNA and provide average usage per customer in comparative form using the same format, based on metered sales for the same calendar month in each of the past three heating seasons.

d. Monthly base rate revenues, shown separately for Rate G-1 residential, commercial, and public authority customers, and in total for these customer groups. In comparative form, show base rate revenues, calculated based on metered sales volumes and actual revenues as billed to customers under the provisions of Atmos's WNA.

e. Monthly heating degree days, reported as follows: (1) normal calendar heating degree days; (2) actual calendar heating degree days; (3) normal billed heating degree days; and (4) actual billed heating degree days. Explain the differences between calendar and billed heating degree days including, but not limited to, a narrative description of Atmos's meter reading cycles, billing cycles, etc.

8. For each of the last five calendar years, provide Atmos's return on common equity based on (1) calculated revenues as if the WNA had not been in effect and (2) actual revenues with the WNA in effect.

a. Show the return calculation, including the net income available for common stock and the equity balance used in the calculation. The return calculation should be based on an end-of-period equity balance.

b. Explain whether Atmos has considered revising its WNA tariff so that the 30-year normal is based on a more recent period, for example, the 30-year period ending 2008.

9. Refer to page 23 of the Smith Testimony. Beginning on line 9, Mr. Smith states the impact of the proposed rates on the different rate classes. Provide the calculations supporting the stated impacts for each rate class.

10. Refer to page 23 of the Smith Testimony and Exhibit GLS-1. At the bottom of page 23, Mr. Smith states that Atmos is proposing to discontinue Storage Transportation ("T-1") and General Transportation ("T-2") and that there are no subscribers to either service.

a. The bill frequency data provided in GLS-1 (line 37 on page 1 and line 47 on page 2) indicates there are customers on rate T-2. Explain the discrepancy.

b. Explain whether Atmos anticipates future interest in T-2 service.

c. Did T-1 and T-2 subscribers migrate to some other Atmos transportation/carriage service or did they leave the Atmos system altogether?

d. How long has it been since Atmos had subscribers to T-1 service?

11. Refer to page 24 of the Smith Testimony. Atmos is requesting a deviation from 807 KAR 5:022, Section 9(17)(a)(1) and (2). Starting at line 20, Mr. Smith states that Atmos would not assume ownership of existing yard lines but proposes to operate and maintain the existing yard lines. List and describe all responsibilities that would remain with customers who own these yard lines.

12. Refer to the Smith Testimony, Exhibits GLS-1 through GLS-7. Provide an electronic copy on CD-ROM in Microsoft Excel format with all formulas intact and unprotected.

13. Refer to the Smith Testimony, Exhibit GLS-3. For each rate class that shows a change in number of bills or Mcfs, provide a narrative describing the reason(s) for the changes.

14. Refer to the Smith Testimony, Exhibit GLS-4. Explain why Atmos has not updated its 30-year period past the year 2000 for purposes of normalizing its volumes for normal weather.

15. Provide weather-adjusted volumes and the impact on Atmos's proposed rates using weather data for 30 years ended 2008 as opposed to 30 years ended 2000. Provide revised versions of all exhibits that would be affected by this calculation.

16. Explain the terms "Lagged Actual HDDs" and "Lagged Normal HDDs."

17. Refer to the Smith Testimony, Exhibit GLS-8. Confirm that line 35, Total Revenue, should be shown as \$209,215,530 rather than \$207,566,369. If this is not the case, explain how the \$207,566,369 was calculated.

18. Refer to page 9 of the Direct Testimony of Gregory K. Waller ("Waller Testimony").

a. For the fiscal years 2005 through 2009, provide a comparison of Atmos's Operation and Maintenance ("O&M") budgets shown by Federal Energy Regulatory Commission ("FERC") account.

b. For the fiscal years 2005 through 2009, provide a comparison of Atmos's actual O&M expenses shown by FERC account.

19. Refer to page 11 of the Waller Testimony. At lines 22 – 25, Mr. Waller discusses the adjustment made to account for an average 3.5-percent wage increase to be effective October 1, 2010, which he characterizes as consistent with the average level of increases for the past several years. Provide the information relied upon by Mr. Waller in making this characterization.

20. Refer to page 12 of the Waller Testimony, specifically, the discussion of the adjustment for O&M expense types other than labor, benefits, rent and bad debt.

a. Provide the amount of these expenses for fiscal years 2007, 2008, 2009, the proposed base period and the proposed forecasted test period.

b. For the proposed forecasted test period, show the derivation of these expenses based on the description given on lines 16 – 19.

c. Show separately the amount of insurance expense for fiscal years 2007, 2008, 2009, the proposed base period and the proposed forecasted test period.

21. Refer to page 12 of the Waller Testimony, specifically, the discussion of the adjustment relating to bad debt.

a. Provide a table showing Atmos's bad debt, its combined residential, commercial and public authority revenues, and the percentage of bad debt to those revenues for each of the fiscal years from 2005 through 2009.

b. Provide Atmos's bad debt, its combined residential, commercial and public authority revenues, and the percentage of bad debt to those revenues for the proposed base period.

22. Refer to page 13 of the Waller Testimony, specifically, the discussion of the increase in the amount of general office O&M allocated to Kentucky from the base

period to the forecasted test period, an increase which approximates nine percent. The costs identified as the primary drivers of the increase are telecommunications and outside services. Provide separately the amounts of telecommunications and outside services costs allocated to Kentucky for both the base period and the forecasted test period with a general description of the reasons for the levels of the increases from the base to the forecasted test period.

23. Refer to page 18 of the Waller Testimony concerning the proposed PRP. Similar programs approved by the Commission for Duke Energy Kentucky, Inc. and Columbia Gas of Kentucky, Inc. provided for the annual adjustment filings to contain a revenue requirement based on historical additions, retirements, costs, etc. Explain why Atmos believes it should be permitted to make its annual adjustment based on forecasted rather than historical information.

24. Refer to page 20 of the Waller Testimony. Starting at line 22, Mr. Waller states that, for the first year of the program, the PRP recovery charge should be implemented on the first billing cycle in April 2011. Explain why the recovery charge should be implemented in April 2011 rather than in October 2010 as indicated in the proposed tariff provided in Volume 2, Tab FR 10(1)(b)(7), page 44.

25. Refer to page 4 of the Direct Testimony of Christopher A. Felan ("Felan Testimony"). Starting at line 20, Mr. Felan states that "[f]or the months of October 2010 through the end of the test year I added plant additions in amounts 5% greater than the Budget 2010 additions to reflect the expected growth in spending consistent with the company's five year plan." Given the decline in customer usage referred to in the Smith Testimony and the decline in customer number shown in Volume 6, Tab FR (10)(10)(i),

explain why there would need to be additions in amounts five percent greater than the 2010 budget additions.

26. Refer to page 8 of the Direct Testimony of Earnest B. Napier (“Napier Testimony”). At lines 16 – 17, Mr. Napier indicates that the company’s fiscal year 2009 capital spending records had not closed at the time his testimony was prepared. Now that records for Atmos’s fiscal year 2009 capital spending have closed, provide the variance in capital spending for fiscal year 2009 in the form shown in the testimony for the five prior fiscal years, along with a narrative description of the nature of the variance.

27. Refer to pages 9 – 11 of the Napier Testimony. Provide a detailed description of the one-time system improvement project in Bowling Green with an estimated cost of \$5.6 million. Explain why this project will be undertaken in fiscal year 2010 and show the extent to which this project causes the forecasted test period capital budget to be \$24.75 million, which is 30 percent more than the capital budget for any of the fiscal years 2004 through 2008.

28. Refer to page 13 of the Napier Testimony. Mr. Napier states that the estimated cost of the PRP is approximately \$124 million. Provide a detailed breakdown of this amount showing the cost of materials, labor, transportation, etc.

29. Refer to pages 5 – 6 of the Direct Testimony of Daniel M. Meziere and Exhibit DMM-1. As stated on page 6, lines 11 – 12, of the testimony, Atmos is required to update its Cost Allocation Manual (“CAM”) each year. Identify whether any changes have been made to Atmos’s CAM, contained in Exhibit DMM-1, compared to the CAM it filed with the Commission on March 16, 2009.

30. Refer to page 5 of the Direct Testimony of Laurie M. Sherwood and Exhibit LMS-1. Given that, pursuant to 807 KAR 5:001, Section 10(8)(c), applications based on a forecasted test period must use a 13-month average for rate base and capitalization, explain why it is appropriate to use a test-year-end cost rate for long-term debt rather than the average cost for the test year.

31. Refer to pages 8 -- 9 of the Testimony of Dr. James H. Vander Weide ("Vander Weide Testimony"). Provide a description of the four types of business risk as they relate specifically to Atmos in Kentucky.

32. Refer to pages 17 – 18 of the Vander Weide Testimony and Schedule 1 at page 33.

a. Provide the company profile sheets from the Value Line Investment Survey ("Value Line") that were used to select the companies in the proxy group.

b. Explain why including Atmos in the group does not introduce undue circularity into the analysis.

c. Since Atmos does not have any electric operations, explain why NiSource Inc., which has electric operations, should be included in the proxy group.

d. Value Line lists EQT Corporation, National Fuel Gas and Oneok Inc. as Natural Gas Diversified companies, not Natural Gas Utilities. Explain why it is valid to have these companies in the proxy group for a regulated gas distribution utility.

33. Refer to page 26 of the Vander Weide Testimony.

a. Since the U.S. Treasury is issuing 30-year bonds, explain why 20-year Treasury Bonds were used to calculate the risk premium.

b. In the second approach to calculating the risk premium, explain why it would not also be appropriate to use the income return on the bonds, as opposed to the yield to maturity.

34. Refer to page 11 of the Direct Testimony of Paul H. Raab (“Raab Testimony”) and Exhibit PHR-2, pages 6 and 73 of 75.

a. Provide the data and the zero intercept calculations as well as a description of the data supporting the classification allocators 4.0 Mains and 4.1 Mains and Services.

b. The Total Company amounts for both allocators 4.0 and 4.1 appear to be out of line with the test-year amounts shown on page 6 of 75. Provide an explanation reconciling the differences.

35. Refer to page 14 of the Raab Testimony. Starting at line 3, Mr. Raab states that the Public Service Commission assessment is allocated on the basis of commodity. Explain why it would not have been more appropriate to allocate the assessment based on gross operating revenues.

36. Refer to the Raab Testimony, Exhibit PHR-2, at page 6. Provide a description of the production plant that is owned and operated by Atmos in Kentucky, i.e., Accounts 3252 - 3360.

37. Refer to the Raab Testimony, Exhibit PHR-2, page 19, line 7. Explain how operating revenues were classified as customer, demand, and commodity.

38. Refer to the Raab Testimony at Exhibit PHR-2, pages 73-75. For each classification and allocation factor, provide a page and line reference to where in the cost-of-service study the data is located that is the basis for the factor.

39. Refer to the Raab Testimony, Exhibit PHR-2. Provide an electronic copy of this exhibit on CD-ROM in Microsoft Excel format with all formulas intact and unprotected.

40. Refer to Volume 2 of the application, Tab FR 10(1)(b)(8).

a. Refer to Thirty-Sixth Sheet No. 4, the present tariff. In the middle of the page under "Interruptible Service," the base charge is shown as \$220. Confirm that the current base charge for this service should be shown as \$250.

b. Refer to First Revised Sheet No. 11, proposed tariff. Under No. 2, Availability of Service, Item a, language was added stating that the interruptible sales service rate is available to customers with an expected demand of at least 9,000 Mcf per year. Explain why this language was added. This explanation should discuss the difference between the current and proposed G-2 tariff as it would affect new customers to the service. State the number of current customers that would be affected by the language addition. State whether any customers will be affected since current customers are being grandfathered.

c. Refer to Third Revised Sheet No. 24, proposed tariff. At the bottom of this page, it is stated that the net uncollectible gas costs will be reported on an annual basis. Explain why Atmos is not proposing to report this on a quarterly basis.

d. Refer to Third Revised Sheet No. 39, proposed tariff. The last sentence on this page states that the demand-side management lost sales adjustment will reset when Atmos completes a general rate case. Given this statement, explain why Atmos is not proposing to reset this adjustment to zero with the implementation of new rates in this case.

e. Refer to First Revised Sheet No. 42, proposed tariff. In the first paragraph, confirm that the word "Carriage" should be changed to "Transportation" given Atmos' proposals in this case.

f. Refer to First Revised Sheet No. 43, proposed tariff, Section 2.d. State whether this statement is written as Atmos is proposing or if a correction is needed.

g. Refer to Third Revised Sheet No. 53, proposed tariff. In the middle of the page, under Section No. 1, "Dth Customer," provide corrected language for the second sentence.

h. Explain why Third Revised Sheet Nos. 53 and 61 no longer contain the language "The Company has no obligation to provide gas supply to a customer electing service under this tariff."

i. Refer to First Revised Sheet No. 67.1, proposed tariff. Under Section No. 1, confirm that the reference to "Rate T-2" should be deleted and "carriage" should be changed to "transportation" given Atmos's proposals in this case.

j. Refer to Original Sheet No. 86, present tariff, and First Revised Sheet No. 86, proposed tariff. Under Section No. 18, the first four paragraphs labeled a. through d. have been deleted from First Revised Sheet No. 86 of the proposed tariff. State whether Atmos intended these deletions and, if so, the reason for the deletions

k. State whether Atmos has considered renaming Rates T-3, T-4, T-5, and T-6 so that they are designated T-1, T-2, T-3, and T-4.

41. Refer to Volume 2 of the application, FR 10(9)(h)8.

a. Refer to line 6. Explain why these sales volumes do not reconcile with those on FR 10(9)(h)(15), line 15.

b. Refer to line 8. Clarify whether "L&U" stands for "lost and unaccounted for."

42. Refer to Volume 6 of the application, Tab FR 10(10)(b), Schedules B.1 F and B.4.1 F.

a. For the forecasted test period, provide the monthly balances for Account 1641, Gas Stored Underground.

b. Describe the nature of the negative balance of \$9,731,235 in Account 1641 at the end of the forecasted test period.

43. Refer to Volume 6 of the application, Tab FR 10(10)(d), Schedule D-2.1.

a. For all adjustments listed under "ADJ1," provide the calculations supporting the adjustments or reference to the location of the calculations in the application.

b. Starting at line 27, Atmos states that an adjustment is being made to Revenue from Transportation, in part, to "account for migration to transportation service from sales services." Explain why this migration will occur and provide the supporting calculations for this adjustment.

44. Refer to Volume 6 of the application, FR 10(10)(i), Schedule I.2.

a. Refer to line 9. Given the stability of the number of residential customers in 2006, 2007 and 2008, explain the basis for the reduction of 701 customers from 2008 to the base period.

b. Provide the actual number of customers by class for the base period ended December 31, 2009.

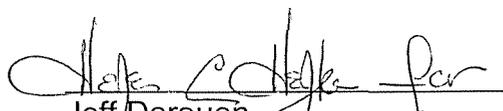
45. Refer to Volume 6 of the application, FR 10(10)(n). Provide the calculations for columns (b) and (c) for the Commercial, Industrial, and Public Authority classes.

46. Refer to Volume 2 of 3 of Atmos's responses to Staff's First Data Request ("Staff's First Request"), Item No. 45. Explain why Schedules C-2.1 B and C-2.2 B differ from those filed in the application, Volume 6, Tab FR 10(10)(c).

47. Refer to Volume 3 of 3 of Atmos's responses to Staff's First Request, Item No. 55, Attachment 17, GLS PRP Example.

a. The fourth page of this exhibit shows expected plant retirements of \$500,000. Explain why plant is not reduced by the \$500,000 retirement when calculating net plant on page 1 of this exhibit.

b. Provide projected PRP filings for the first three years of the program.


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